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SUBJECT: SUMMER IS SINK-OR-SWIM TIME FOR VIETNAM'S LEADING EXPORTERS

REF: 08 Hanoi 1162 (Vietnam in Trade Deal With Japan)

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**¶1. (SBU) Summary:** Orders for most of Vietnam's leading exports are down across the board, by about 25% or higher, according to industry representatives. At this point, exporters are not panicking because they still have orders to keep them active for this quarter. Some are even hoping to expand market share or streamline operations during the global economic crisis. However, if economic conditions in Vietnam's major markets do not improve, exporters will be forced to make hard decisions about significantly scaling back operations. The crunch time begins in May or June for garment and footwear exporters, and summer for electronics and furniture manufacturers. Seafood exporters expect that the leaner times will allow them to take market share from higher-end competitors. All major exporters hope that Vietnam will continue to pursue trade liberalization deals abroad. End summary.

ORDERS DOWN ACROSS THE BOARD

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**¶2. (U)** Econoff met in February with representatives of Vietnam's leading export manufacturing industries. They report significant drops in overseas demand. Orders for the garment and seafood industries, the country's second and fourth largest export earners in 2008, were down in December and dropped even lower in January (down over 30%) on a year-over-year (yoY) basis. (Crude oil remains Vietnam's largest export earner.) Footwear exports, which rank third, were down by 24% YoY in January and will face higher tariffs this year in the EU, their largest market. Electronics will also drop by 30% and furniture exports by 70% in early 2009, according to industry estimates. Together, the textile and garments, seafood, footwear, electronics and furniture industries accounted for 38% of Vietnam's exports in 2008.

CRUNCHTIME COMES SOON

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**¶3. (U)** Despite suffering steep drops in exports, none of these sector representatives said their members planned significant cost-saving measures at this time. Electronics and furniture

exporters received their orders for 2009 at around the same time the global economic crisis began to unfold in 2008, while garment and footwear firms report enough orders to keep them afloat through the first quarter of 2009. Seafood exporters, after seeing shipments drop at the turn of the year, reported recently that they are already back to near 2008 levels. The time of reckoning for all these industries will come at the end of the first quarter or shortly thereafter.

¶ 14. (U) Christmas-time orders for garments start rolling in after March, and by May the garment industry will know the full impact of the economic crisis, according to Vitas, Vietnam's leading apparel manufacturers' association. The U.S. is by far Vietnam's largest garments market, taking in 54% of their exports, followed by the EU (18%) and Japan (12%). Of the three, Japan is the only one where Vitas members could see any growth, as a result of their recently-concluded FTA (Reftel). Russia and the Middle East are other markets where they will pursue opportunities to make up for lost markets.

¶ 15. (U) The footwear industry is on a similar timeline. Export numbers were strong in 2008, including increases yoy in November and December, but they began to drop in January, coinciding with the EU's "graduation" of Vietnam's footwear industry from GSP preferences that same month, which raise some tariffs by as much as 660%. The change is hitting producers of leather footwear particularly hard.

¶ 16. (U) Electronics exporters traditionally receive their yearly orders in June and July. Over half of their production goes to Japan and, although they can benefit from the new Japan-Vietnam trade deal, the situation for 2009 is "worrisome," according to the Vice Chairman of VEIA, the electronics industry association. The furniture industry receives its most significant orders in September

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and October, and early signs are not good. U.S. exports of lumber for that industry, which had been one of the brightest spots of our bilateral trade (Septel), began dropping in November 2008 and went down by 60% and 47% yoy in December and January, respectively.

¶ 17. (SBU) The seafood industry is in better shape. The Vice Chairman of VASEP, the seafood association, told Econoff that the worst for them may be over. Aside from luxury seafood like large shrimp, which will probably suffer from the global crisis, VASEP members are feeling bullish about 2009. The Russian market, which was up by 83% in 2008, has just re-opened for Vietnamese exports, and they expect big growth elsewhere in Eastern Europe and Europe, as consumers switch from increasingly expensive marine fish to freshwater white-fleshed pangasius. Growth in the U.S. (3%) in 2008 was among the lowest in all markets and the U.S. share of seafood exports was 16.5%. "Economic downturns are good for low prices," the Vice Chairman said, echoing the industry's sentiments.

COMMENT: BITING NAILS AND BULLETS IN LATTER 2009

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¶ 18. (SBU) Comment: All of Vietnam's most important manufacturing export sectors ushered in 2009 in a downward trend. One factor that has served as a buffer thus far is the buying cycle of Vietnam's leading export industries. Contracts for winter season deliveries of apparel, footwear and other consumer goods are placed months in advance, meaning that many Vietnamese producers had their winter order books full by mid-summer of last year, well before the global economic slowdown became obvious in the fall. If the situation in the country's major foreign markets does not brighten by the early summer, these businesses will have to make hard decisions about significantly cutting operations and reducing staff. For now, the best-run firms are focusing on increasing competitiveness and lobbying the Government to accelerate trade liberalization deals. These are welcome developments in an otherwise-bleak outlook. End Comment.

¶ 19. (U) This telegram was coordinated with ConGen Ho Chi Minh City.

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